



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PSP 730.4.17

January 31, 2001
01-PSP-010(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Other Transaction Agreements

Audit guidance contained in MRD 00-PSP-017(R), Subject: Audit Guidance on Evaluation of Other Transaction (OT) Agreements, dated February 17, 2000, has been incorporated into the January 2001 DCAA Contract Audit Manual under Section 14-909. Since that time, the following actions have taken place:

- Section 803 of the Floyd D. Spence National Defense Authorization Act for Fiscal Year (FY) 2001 was passed, which provided clarification on the appropriate use of OT for prototype projects and extended the authority to carry out those projects;
- *Other Transaction Guide for Prototype Projects* was issued on December 21, 2000; and
- DCAA representatives were identified for the newly established Defense Contract Management Agency Offices of Administration for OTs.

Section 803 of the FY 2001 National Defense Authorization Act

Section 803 extended the Department's authority for issuing OTs for prototype projects (Section 845 OTs) through September 30, 2004. The authority to use OTs for basic, applied, and advanced research projects (Section 2371 OTs) was made permanent in the National Defense Authorization Act for FY 1991.

Section 803 also included conditions for the appropriate use of the authority that apply to new awards of prototype projects. Specifically, Section 803 states that an OT for prototype effort may not be entered into unless:

- (A) there is at least one nontraditional defense contractor participating to a significant extent in the prototype project; or
- (B) no nontraditional defense contractor is participating to a significant extent in the prototype project, but at least one of the following circumstances exists:

- (i) At least one-third of the total cost of the prototype project is to be paid out of funds provided by parties to the transaction other than the Federal Government.
- (ii) The senior procurement executive for the agency...determines in writing that exceptional circumstances justify the use of a transaction that provides for innovative business arrangements or structures that would not be feasible or appropriate under contract.

As such, any new OT entered into must either have at least one nontraditional defense contractor participating to a significant extent, or at least one-third of the cost of the OT must be provided by the contractor, unless a waiver is granted by the senior procurement executive. Section 803 defines a nontraditional defense contractor as:

...an entity that has not, for a period of at least one year prior to the date that a transaction (other than a contract, grant, or cooperative agreement) for a prototype project under the authority of this section is entered into, entered into or performed with respect to –

- (1) any contract that is subject to full coverage under the cost accounting standards...or
- (2) any other contract in excess of \$500,000 to carry out prototype projects or to perform basic, applied, or advanced research projects for a Federal agency, that is subject to the Federal Acquisition Regulation.

Therefore, any contractor that was either subject to full CAS coverage, or entered into or performed on a contract in excess of \$500,000 for prototype effort; or basic, applied, or advanced research within the past twelve months is considered to be a traditional defense contractor.

Section 803 also prescribes that the cost share required as a result of not having a nontraditional defense contractor cannot represent costs incurred before the date on which the transaction becomes effective. This provision excludes certain costs incurred in anticipation of entering into the transaction. This position is consistent with our audit guidance contained at CAM 14-909.4.b(1).

Other Transactions (OT) Guide for Prototype Projects

On December 21, 2000, the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L)) issued a "directive-type memorandum" that assigned responsibilities and prescribed procedures for implementation and use of OT authority for prototype projects. As stated in the USD(AT&L) memorandum, the OT guide is intended to provide a framework for the government team to consider and apply, as appropriate, when using an OT for prototype projects. However, there are some mandatory requirements included in the guide, such as buying command reporting requirements. The guide must be considered for all solicitations issued after January 5, 2001. A copy of the USD(AT&L) memorandum and OT guide can be found at the Director, Defense Procurement (DDP) website at: <http://www.acq.osd.mil/dp/dsps/ot/at121dec00memowithguide.doc>. The OT guide is scheduled to be included in the January 31, 2001 update to the Defense Acquisition Deskbook.

The OT guide includes such audit-related issues as Price Reasonableness (Section C2.11), Allowable Costs (Section C2.12), Accounting Systems (Section C2.13), Audit (Section C2.14), Cost Sharing (Section C2.16), and Payments (Section C2.17). Further, Appendix 5 of the guide includes sample audit access clauses to be used when appropriate. DCAA was a member of the working group that developed the guide and the information contained therein is consistent with the DCAA audit policy contained in CAM Section 14-909.

DCMA Offices of Administration for OTs

Identified in CAM 14-909.7, Coordination with DCAA Auditors at DCMA Offices of Administration, are the 10 DCMA locations with responsibility for administering OTs assigned to DCMA. Enclosure 1 contains the latest listing of DCAA representatives assigned responsibility for facilitating the evaluation of OTs requested by DCMA. However, auditors performing audits or financial advisory services on OTs not administered by DCMA should not hesitate to contact the DCAA auditors supporting the DCMA locations if they have general questions related to OTs. Policy related questions should continue to be addressed to Headquarters.

If you have any questions regarding this memorandum, please contact Terry Schneider, Program Manager, Special Projects Division, at (703) 767-3290, by fax at (703) 767-3234, or e-mail at Terry.Schneider@dcaa.mil.

/S/Robert DiMucci

For Lawrence P. Uhlfelder
Assistant Director
Policy and Plans

Enclosure:
a/s

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**Defense Contract Management Agency (DCMA)
Administration Office for Other Transaction (OT) Agreements
and Cognizant DCAA Point of Contact**

DCMA Location	Geographic Area	DCAA POC
DCM Atlanta	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee, West Virginia (zip codes 24701-25332 and 25501-26886)	Lynn Petty, Senior Auditor Atlanta Branch Office (1101) (770) 859-1440 (770) 859-1449 (fax) dcaa-fao1101@dcaa.mil
DCM Baltimore	District of Columbia, Maryland (zip codes 20001-21501 and 21527-21999, excluding Northrop Grumman locations in Maryland), West Virginia (zip codes 25401-25447)	Josh Purec, Supervisory Auditor Baltimore Branch Office (6141) (410) 962-3857 (410) 962-9976 (fax) dcaa-fao6141@dcaa.mil
DCM Manassas	Virginia (zip codes 20101-22499)	Tom Frisicaró, Supervisory Auditor Fairfax Branch Office (6151) (703) 735-3468 (703) 735-8227 (fax) dcaa-fao6151@dcaa.mil
DCM Norfolk	Virginia (zip codes 22500-22599 and 22800-24699)	Cecilia (Sis) Ambrose, Technical Specialist Hampton Roads B.O. (1661) (757) 838-5368 (757) 838-5113 (fax) dcaa-fao1661@dcaa.mil
DCM Northrop Grumman Baltimore	Various Northrop Grumman locations in Maryland	Josh Purec, Supervisory Auditor Baltimore Branch Office (6141) (410) 962-3857 (410) 962-9976 (fax) dcaa-fao6141@dcaa.mil
DCM Raytheon Los Angeles	Various Raytheon and former Hughes locations in Southern California	Tammy Mather, Technical Specialist San Diego Branch Office (4151) (858) 616-8800 (858) 616-8801 (fax) dcaa-fao4151@dcaa.mil

<u>DCMA Location</u>	<u>Geographic Areas</u>	<u>DCAA POC</u>
DCM San Diego	Arizona, California (zip codes 935XX and lower, except So. California Raytheon/Hughes locations), Colorado, Hawaii, Kansas, Louisiana, New Mexico, Nevada, Oklahoma, Texas, Utah	Tammy Mather, Technical Specialist San Diego Branch Office (4151) (858) 616-8800 (858) 616-8801 (fax) dcaa-fao4151@dcaa.mil
DCM Seattle	Alaska, Arkansas, California (zip codes 936XX and higher, except So. California Raytheon/Hughes locations), Idaho, Illinois, Missouri, Montana, Nebraska (zip codes 69001-69021, 69023-69028, 69030-69045, 69101-69102, 69121-69129, 69131-69137, 69159-69170, 69201, 69211-69213, 69216, 69218-69367), Oregon, Washington, Wisconsin, Wyoming	Doug McAlpine, Technical Specialist Seattle Branch Office (4261) (206) 439-4806 (206) 439-4870 (fax) dcaa-fao4261@dcaa.mil
<u>DCM Syracuse</u>	Connecticut, Delaware, Indiana, Maine, Maryland (zip codes 21502-21526, except Northrop Grumman locations), Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont	Michael Henry, Supervisory Auditor Upstate New York B.O. (2501) (315) 449-0708 (315) 449-1309 (fax) mhenry@dcaa.mil or Stanley Moskal, Technical Specialist Upstate New York B.O. (2501) (315) 423-8545 (315) 423-8935 (fax) smoskal@dcaa.mil
DCM Twin Cities	Iowa, Minnesota, Nebraska (zip codes 68001-68982, 69022, 69046, 69120, 69130, 69138, 69157, 69171, 69210, 69214, 69217), North Dakota, South Dakota	Don Kreiger, Supervisory Auditor Minneapolis Br. Office (3541) (612) 664-5477 (612) 664-5490 (fax) dcaa-fao3541@dcaa.mil